

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 CIAE-00 COME-00 DODE-00 DOTE-00

FMC-01 INR-07 NSAE-00 SAL-01 CG-00 DLOS-06 OES-06

PA-01 PRS-01 SS-15 SP-02 NSC-05 /059 W

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R 171200Z SEP 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 7879

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 8048

E.O. 11652: N/A

TAGS: EWWT; BR

SUBJ: MARITIME CONSULTATIONS, BRASILIA, SEPTEMBER 15, 1976

REF: RIO DE JANEIRO 7958

1. SUMMARY. ASSISTANT SECRETARY BLACKWELL AND PARTY HAD FRUITFUL MEETINGS WITH THE MINISTRIES OF FINANCE AND EXTERNAL RELATIONS ON SEPTEMBER 15. (IN ADDITION, BLACKWELL MADE A COURTESY CALL ON THE MINISTER OF TRANSPORTATION.) WHILE NO SOLUTIONS WERE FORMULATED, THE TWO SIDES MADE PROGRESS IN DEFINING THE NATURE OF THE PROBLEMS. THE OPPORTUNITY FOR FURTHER DISCUSSIONS DURING THE US-BRAZIL MARITIME CONSULTATIONS IN WASHINGTON IN NOVEMBER WAS NOTED. END SUMMARY.

2. ASSISTANT SECRETARY BLACKWELL MET IN BRASILIA WITH FRANCISCO DORNELLES, GENERAL COUNSEL AND ADVISOR ON INTERNATIONAL TAX MATTERS TO FINANCE MINISTER SIMONSEN, FOR A VERY OPEN AND CANDID 45-MINUTE EXCHANGE ON SEPTEMBER 15. ASSISTANT SECRETARY BLACKWELL GAVE A BRIEF HISTORICAL SUMMARY OF RECENT US-BRAZIL MARITIME RELATIONS, CONCLUDING BY NOTING THE IMBALANCE CREATED

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IN RECENT YEARS IN NORTHBOUND TRAFFIC AS A RESULT OF

THE DISCRIMINATORY APPLICATION OF BRAZIL'S FISCAL INCENTIVES. HE REFERRED TO DATA GATHERED BY MOORE-MCCORMACK AND OTHER SHIPPING LINES WHICH INDICATE THAT THE LOSS IN THE SHARE OF CARGO CARRIED BY AMERICAN CARRIERS IS ATTRIBUTABLE TO THESE FISCAL INCENTIVES. THE PRUDENTIAL PROBLEM WITH FROZEN ORANGE JUICE WAS CITED AS A SPECIFIC CASE IN POINT.

3. BLACKWELL NOTED THAT IN HIS MEETINGS WITH SUNAMAM IN RIO THE BRAZILIAN SIDE ARGUED THAT THE BENEFITS INCURRED ON BRAZILIAN LINES BY THESE FISCAL INCENTIVES ARE MARGINAL, INDEED DE MINIMIS. HE STRESSED THAT, IF THIS IS IN FACT THE CASE, IT WOULD SEEM TO BE IN BRAZIL'S BEST INTEREST TO FIND AN EARLY SOLUTION INSTEAD OF RISKING COUNTERVAILING ACTIONS BY THE U.S. WHICH MAY AFFECT TOTAL BRAZILIAN EXPORTS TO THE AMERICAN MARKET. BLACKWELL MAINTAINED THAT ALL THAT IS REQUIRED TO ACCOMPLISH THIS OBJECTIVE IS TO APPLY PARA 3 OF DECREE 666 WHICH EMPOWERS SUNAMAM, ACCORDING TO SUNAMAM'S OWN INTERPRETATION, TO GRANT THE SAME FISCAL INCENTIVES WHENEVER MERCHANDISE IS SHIPPED ON AMERICAN BOTTOMS. BLACKWELL STRESSED THAT BRINGING U.S. LINES UNDER THE SAME FISCAL INCENTIVE REGIME WITH BRAZILIAN LINES WOULD BE BENEFICIAL TO BRAZIL SINCE (A) IT WOULD INCREASE THE FREQUENCY AND AVAILABILITY OF AMERICAN SHIPS SERVING BRAZILIAN PORTS AND (B) IT WOULD IMPROVE SERVICE FROM INCREASED COMPETITION.

4. DORNELLES, IN A SOMEWHAT EMOTIONAL REACTION, REPLIED THAT HE WOULD PERSONALLY NOT CHANGE AN IOTA IN THE BRAZILIAN FISCAL INCENTIVE SYSTEM. HE SAID (A) BRAZILIAN SUBSIDIES ARE NOT GRANTED TO SHIPPING LINES BUT TO EXPORTERS AND (B) THE U.S. ITSELF HEAVILY SUBSIDIZES ITS SHIPPING LINES. WITH RESPECT TO THE PRUDENTIAL CASE, HE STATED THAT HE STUDIED THE MATTER AND DID NOT SEE ANY GROUNDS FOR COMPLAINT. HE THOUGHT PRUDENTIAL WAS JUST BLUFFING. HE INDICATED THAT BRAZIL HAD NO FEAR OF SUCH COMPLAINTS BECAUSE EVEN THE ITC HAD TURNED DOWN MANY TRADE ACTIONS AGAINST BRAZIL (HE CITED HONEY, SHRIMPS AND SHOES). HE CONCLUDED BY EXPRESSING COMPLETE SURPRISE AT THE FACT THAT THE U.S. WOULD WANT TO HURT LIMITED OFFICIAL USE

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BRAZIL'S EXPORT DRIVE, WHEN EXPORT EARNINGS ARE SO CRUCIAL FOR BRAZIL TO REPAY ITS HUGE DEBT OBLIGATIONS TO THE U.S.

5. BLACKWELL RESPONDED BY EMPHASIZING THAT THE U.S. WAS NOT ALL INTERESTED IN DAMAGING BRAZIL'S EXPORT PERFORMANCE. NOR WAS THE U.S. ASKING BRAZIL TO CHANGE ITS LAWS TO MEET THE DEMANDS OF U.S. SHIPPING LINES. ALL THE

U.S. WAS ASKING FOR WAS EQUAL TREATMENT, WHICH BRAZIL AGREED TO GRANT UNDER A BILATERAL OBLIGATION. BLACKWELL THEN WENT ON TO CITE THE VARIOUS STEPS TAKEN BY THE U.S. TO GIVE BRAZILIAN SHIPS EQUAL ACCESS, INCLUDING THE VARIOUS WAIVERS UNDER EXIMBANK CREDITS. FINALLY, BLACKWELL EXPLAINED THAT EVEN THOUGH THE INCENTIVES ARE GRANTED TO THE EXPORTER AND NOT TO THE SHIPPERS THE SYSTEM PROVIDES A VERY CLEAR INCENTIVE TO SHIP BRAZILIAN FLAG.

6. AT THIS POINT DORNELLES' TONE BECAME LESS EXCITED, AS HE SEEMED TO BE GETTING A BETTER APPRECIATION OF THE PROBLEM -- EVEN CONCEDED THAT THERE MIGHT BE GROUNDS FOR A SOLUTION. DISCLAIMING ANY EXPERTISE ON MARITIME QUESTIONS, HE INDICATED THAT HE WOULD SUGGEST TO THE MINISTRY OF EXTERNAL RELATIONS THE FORMATION OF AN INTER-AGENCY COMMITTEE WHICH WOULD FORMULATE AN OFFICIAL BRAZILIAN POSITION ON THE PROBLEMS AT HAND. HE HOPED THAT SUCH A GROUP WOULD COME UP WITH SUGGESTIONS (STRESSING THAT THERE MAY NOT NECESSARILY BE SOLUTIONS) FOR THE MEETING OF MARITIME OFFICIALS SCHEDULED FOR WASHINGTON IN NOVEMBER. HE INDICATED THAT HE PLANNED TO BE IN NEW YORK ON OCTOBER 25 AND WOULD BE PREPARED TO GO TO WASHINGTON IF THAT WERE NECESSARY.

7. SECRETARY BLACKWELL MADE NOON CALL ON MINISTER OF TRANSPORTATION DYRCEU ARAUJO NOGUEIRA. BLACKWELL THANKED MINISTER NOGUEIRA FOR THE EXCELLENT COOPERATION GIVEN BY HIS MINISTRY DURING THE THOROUGH AND FRANK DISCUSSIONS IN RIO. MINISTER NOGUEIRA ASSURED BLACKWELL THAT THE MINISTRY OF TRANSPORTATION WOULD DILIGENTLY PURSUE SOLUTIONS TO THE PROBLEMS RAISED WITHIN THE PARAMETERS OF THE MINISTRY'S COMPETENCE.

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PA-01 PRS-01 SS-15 SP-02 NSC-05 /059 W

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R 171200Z SEP 76

FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC 7880  
INFO AMCONSUL RIO DE JANEIRO  
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8. ASSISTANT SECRETARY BLACKWELL AND PARTY CONCLUDED THEIR BRASILIA VISIT WITH AN HOUR AND A HALF MEETING WITH MINISTRY OF EXTERNAL RELATIONS OFFICIALS. MINISTER SERGIO ROUANET, ACTING HEAD OF THE MINISTRY'S ECONOMIC DEPARTMENT, CHAIRED THE TALKS ON THE BRAZILIAN SIDE. ALSO PRESENT WERE COUNSELOR ALVARO DA COSTA FRANCO FILHO OF THE MINISTRY'S FINANCE DIVISION, AND FIRST SECRETARY ANTONIO ROCHA OF THE MINISTRY'S TRANSPORTATION DIVISION. BLACKWELL SAID THAT THE LAST FIVE YEARS OF MARITIME RELATIONS BETWEEN OUR TWO COUNTRIES HAD BEEN EXCELLENT. HE REVIEWED THE DISCUSSIONS WHICH HAD TAKEN PLACE IN RIO AND WITH THE FINANCE MINISTRY IN BRASILIA. HE EXPRESSED UNDERSTANDING FOR THE BRAZILIAN EFFORTS TO INCREASE EXPORTS, BUT WAS CONCERNED WITH THE DISCRIMINATORY EFFECT OF DECREE 666 IN REGARD TO US CARRIERS. HE REITERATED HIS REQUEST TO SUNAMAM THAT IT EXERCISE ITS AUTHORITY UNDER PARAGRAPH 3 OF DECREE 666 TO EXTEND FISCAL INCENTIVES TO U.S. CARRIERS. THIS COULD BE PROVIDED ON THE BASIS THAT THE US DOES NOT DISCRIMINATE AGAINST BRAZILIAN BOTTOMS. BLACKWELL REVIEWED THE INSTRUMENTS WHICH MAY BE BROUGHT INTO PLAY, SHOULD A SOLUTION NOT BE FOUND, INCLUDING SECTION 19 OF THE FEDERAL MARITIME ACT, SECTION 301 OF THE TRADE ACT, AND WITHDRAWAL OF THE BLANKET WAIVER IN EFFECT SINCE

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1970 ALLOWING BRAZILIAN BOTTOMS TO SHARE IN THE SOUTH-BOUND MOVEMENT OF GOODS UNDER EXIM CREDITS. HE HOPED, HOWEVER, THAT NONE OF THESE REMEDIES TO OBTAIN EQUITY WOULD BE NECESSARY.

9. MINISTER ROUANET RESPONDED THAT HE TOO HOPED THAT THE TWO GOVERNMENTS WOULD FIND MEANS TO PREVENT MARITIME PROBLEMS FROM AFFECTING OUR OVERALL BILATERAL TRADE. HE REFERRED TO THE FRANK AND CONSTRUCTIVE DISCUSSIONS WHICH HAD BEEN HELD WITH AMBASSADOR YEUTTER UNDER THE CONSULTATIVE SUBGROUP ON TRADE ON SEPTEMBER 3. HE SAID THAT WHILE HE DID NOT HAVE PERSONAL COMPETENCE IN THE MARITIME FIELD AND THE MINISTRY OF EXTERNAL RELATIONS WAS NOT THE PRINCIPAL ACTION OFFICE, DUE TO THE MINISTRY'S "LARGE STAKE IN COMMERCIAL RELATIONS AND FROM A BROAD ECONOMIC VIEW" THE FOREIGN MINISTRY WAS BOTH INTERESTED AND INVOLVED. HE ASSURED SECRETARY BLACKWELL THAT THE FOREIGN MINISTRY

WOULD WORK WITH THE FINANCE MINISTRY AND OTHER GOB  
AGENCIES TO SEEK SOLUTIONS.

10. COUNSELOR COSTA FRANCO OF THE MEA'S FINANCE DIVISION  
STATED THAT HE ALSO HOPED THAT THE PROBLEMS COULD BE  
SOLVED AT A COMMERCIAL (#)

SHOULD THE QUESTION OF SUBSIDIES PER SE EMERGE THAT  
BOTH GOVERNMENTS WOULD NEED TO COME FORWARD WITH FULL  
DATA ON ANY SUBSIDIES PROVIDED TO SHIPPERS OR EXPORTERS.  
TO COSTA FRANCO'S SUGGESTION THAT THE US PROVIDED COM-  
PARABLE SUBSIDIES TO US LINES, (#)

US SUBSIDIES WERE TO SHIP OWNERS AND DID NOT AFFECT  
FREIGHT RATES NOR PROVIDE AN INCENTIVE TO AMERICAN EXPORTERS  
TO SHIP AMERICAN FLAG. COSTA FRANCO THEN BROUGHT UP THE  
SUBJECT OF DISC AND BLACKWELL PROVIDED INFORMATION ON THIS  
SUBJECT, INCLUDING THE FACT THAT THE TAX DEFERRAL OF UP  
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TO ONE AND A FOURTH PERCENT IS NOT USED BY EXPORTERS BECAUSE  
IT IS NOT WORTH THE PAPERWORK. ROUANET SUGGESTED THAT SUB-  
SIDIES TO SHIP OWNERS WOULD HAVE TO BE CONSIDERED IN A  
TOTAL CONTEXT INCLUDING TRADE DISTORTION.

11. ROUANET SAID UNLESS THE PROBLEMS COULD BE RESOLVED  
AT A LOWER LEVEL THAT THEY MIGHT WELL NEED TO GO  
BEYOND THE BILATERAL INTO THE MULTILATERAL, NAMELY GATT.

12. ROCHA OF THE MEA'S TRANSPORTATION DIVISION OBSERVED  
THAT THE PROBLEMS MIGHT NOT BE RESOLVED UNTIL THERE  
WAS A CLARIFICATION ON HOW COMPETITION WORKS WITHIN THE  
SHIPPING CONFERENCE. HE THOUGHT THE SOLUTION MAY REST  
WITH THE CONFERENCE AGREEMENT WHICH IS TO BE RENEGOTIATED  
SOON. HE ALSO REFERRED TO THE NOVEMBER MEETING OF THE  
OFFICIALS OF BOTH GOVERNMENTS IN WASHINGTON AS A FURTHER  
OPPORTUNITY FOR SOLUTIONS TO BE SOUGHT. HE SAID THAT UNI-  
LATERAL ACTION WOULD INVITE RETALIATION. BLACKWELL STATED  
THAT EVEN WITH THE POOL CHANGED AND SHOULD PRUDENTIAL  
BE INCLUDED, THE SUBSIDY TO BRAZILIAN BOTTOMS WILL REMAIN  
A PROBLEM WHICH WILL HAVE TO BE SOLVED. HE FELT THAT RESO-  
LUTION OF OUR BILATERAL MARITIME PROBLEMS WERE ESSENTIAL  
IN ORDER THAT THERE NOT BE A RETURN TO THE CHAOS WHICH  
EXISTED IN OUR MARITIME RELATIONS IN THE SIX YEARS PRIOR

TO 1970 WHICH HAD WORKED TO BOTH NATIONS' DISADVANTAGE.  
BOTH BLACKWELL AND ROUANET AGREED THAT A RETURN TO SUCH  
CHAOS AND THE EFFECT ON OUR OVERALL BILATERAL TRADE COULD  
CREATE A FOREIGN RELATIONS PROBLEM. THEY CONCLUDED BY  
EXPRESSING THE NEED TO FIND THE MEANS FOR A COMMERCIAL  
SETTLEMENT.  
CRIMMINS

NOTE BY OC/T: BRASILIA 8048 (SEC 2 OF 2). (#)OMISSIONS IN  
PARA 10. CORRECTIONS TO FOLLOW.

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** MARITIME MEETINGS, DIPLOMATIC DISCUSSIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 17 SEP 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** greeneet  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 6  
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**Previous Classification:** LIMITED OFFICIAL USE  
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**Reference:** 76 RIO DE JANEIRO 7958  
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**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 12 JUL 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <12 JUL 2004 by CunninFX>; APPROVED <25 OCT 2004 by greeneet>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** OF DISC AND BLACKWELL PROVIDED INFORMATION ON THIS SUBJECT, INCLUDING THE FACT THAT THE TAX DEFERRAL OF UP  
**TAGS:** EWWT, BR, US  
**To:** SECSTATE WASHDC RIO DE JANEIRO SAO PAULO  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006